Appendix D

Iraqi Funds

This appendix provides an update on Iraqi funds used for reconstruction. It includes information on these categories of funds:

- Seized
- Vested
- Development Fund for Iraq (DFI)
- Oil-for-Food (OFF) Program

Iraqi funds available for reconstruction can be grouped into three categories: seized, vested, and DFI deposits:

- Seized funds are former Iraqi regime monies confiscated by coalition forces.
- Vested funds are Iraqi funds in U.S. banks that were frozen by executive order, vested in the U.S. Treasury, and authorized for use to benefit the people of Iraq.
- The DFI was created by the Coalition Provisional Authority (CPA), and the United Nations (UN) concurred in May 2003 (UNSCR 1483). The DFI contains proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from unencumbered OFF program funds. Since the transfer of governance authority to the Iraqi Interim Government (IIG) on June 28, 2004, total deposits to the DFI can only be estimated, because the Special Inspector General for Iraq Reconstruction (SIGIR) does not have access to information on the status of DFI monies now under Iraqi Transitional Government (ITG) control. DFI totals for funds obligated and disbursed are not available. The DFI provides funds for the Iraqi National Budget, primarily from current oil sales.

Seized Funds

Coalition military forces seized $926.8 million in funds from the former Iraqi regime. Virtually all of the seized funds have been allocated. Current Defense Finance and Accounting Service (DFAS) accounting systems indicate that $901.1 million (97.23%) have been obligated, and $865.8 million (93.43%) have been expended, as of September 30, 2005. U.S. Army accounting officials have not reconciled or fully audited the totals for seized funds. Most seized assets were used for:

- non-ministry repairs and humanitarian assistance
- Iraqi ministry operations
- Rapid Regional Response Program (RRRP or R3P)
- Commander's Emergency Response Program (CERP)
- fuel products (propane, diesel, heating oil, etc.) for the Iraqi people

For a detailed list of seized funds program expenditures, see Table D-1.

Seized Currency, as of September 30, 2005			
Program Category	Ceilings	Obligations	Expenditures
Non-ministry Repair/Reconstruction/ Humanitarian Assistance	$317,775,547	$317,465,948	$286,460,849
Ministry Operations	268,551,462	262,732,709	262,720,899
Regional Director's and Commander's Emergency Response Fund (CERP)	200,128,000	199,365,092	198,115,767
Benzene and Liquid Propane Gas Purchase	90,000,000	90,000,000	87,219,622
Stipend Pay	45,000,000	30,837,109	30,837,109
Iraqi Constitutional Convention IT Support	3,823,000	0	0
Ministry of Finance–MANPADS Weapons Buyback Program	1,500,000	715,325	457,225
Undistributed Disbursements	0	0	33,948
Total	**$926,778,009**	**$901,116,183**	**$865,845,419**

Notes:
1. Data not formally reviewed, audited, or verified.
2. 96.1% expended against obligations.
3. Reported by Defense Finance and Accounting Service, as of September 30, 2005.

Table D-1

Vested Funds

In response to a UN resolution passed after the first Gulf War, the United States froze Iraqi assets (UNSCR 661, August 1990; Presidential Executive

Order 12817 of October 23, 1992). Presidential Executive Order 13290 of March 20, 2003, vested frozen funds for use in Iraq. As of September 30, 2005, $1.724 billion had been transferred for use in Iraq, of which $1.705 billion (98.87%) had been obligated, and $1.687 billion (97.99%) had been expended, according to current accounting records provided by DFAS.

Vested funds are used primarily for:

- Iraqi civil servant salaries, pensions, and individual relief payments
- Iraqi ministry operations
- repair and reconstruction

Although most frozen Iraqi assets were vested and sent to Iraq, a balance of $396.6 million remained. The U.S. government transferred $208.6 million to the DFI and set aside $128 million for perfected judgments. The amount of frozen assets remaining in the United States is currently $44.9 million (down from $60 million), largely because of a reconciliation of blocked tangible Iraqi assets.

For a detailed list of expenditures from vested funds, see Table D-2.

Vested Assets, as of September 30, 2005			
Program Category	Ceilings	Obligations	Expenditures
Regular Payments Iraqi Civil Servants/Other	$1,009,825,000	$1,009,274,635	$1,006,383,958
Ministry Operations	375,555,000	364,452,311	356,813,300
Non-ministry Repair/ Reconstruction & Humanitarian Assistance	129,532,000	123,843,346	120,570,722
Regular Pension Payments	99,510,000	99,509,995	99,509,995
Emergency Payments	79,924,000	78,841,040	78,826,590
Mobile Radios (Police, Fire, Emergency) (DISA)	15,800,000	15,800,000	15,424,582
Hospital Generators	9,000,000	9,000,000	8,197,645
Emergency Projects Less Than $200,000	2,475,000	2,474,705	2,474,705
Fire Stations	2,186,000	1,242,545	1,094,965
Stipend Pay	190,000	89,480	0
Specialized Workers	134,000	133,620	133,620
Total	**$1,724,131,000**	**$1,704,661,677**	**$1,689,430,082**

Notes:
1. 99.1% expended against obligations.
2. Note: Data not formally reviewed, audited, or verified.
3. Reported by Defense Finance and Accounting Service.

Table D-2

Development Fund for Iraq

The DFI was established by CPA with UN concurrence in May 2003 to serve as the primary financial vehicle to channel revenue from Iraqi oil sales, unencumbered OFF deposits, and repatriated Iraqi assets to the relief and reconstruction of Iraq.

When the IIG assumed governance authority, responsibility for the DFI sub-account was transferred to the Chief of Mission on June 28, 2004. SIGIR no longer has access to or visibility of DFI account status, beyond the portion of DFI authorized by the Iraqi Minister of Finance for the U.S. government to disburse against DFI-funded contracts awarded by the CPA. The December 2004 estimate of DFI revenues was $30 billion. Since that time, approximately $17.46 billion of additional oil revenue have been added, bringing the September 30, 2005 estimated DFI revenues to $37.21 billion.

DFI Transition Sub-account

Before the transfer of governance authority to the IIG, the administration of contracts awarded by the CPA from DFI funds was delegated to the U.S. government. A separate sub-account, the "Central Bank of Iraq/Development Fund for Iraq/Transition," was created at the Federal Reserve Bank of New York to enable payment for work on those contracts. In addition to the Federal Reserve funds, cash has been provided to enable payment in Iraq for those projects that require this method of payment.

On June 15, 2004, the Iraqi Minister of Finance designated the Director of the Program Management Office (PMO), now the Project and Contracting Office (PCO), to administer and make payments on those DFI contracts that:

- were entered into before June 28, 2004
- were not secured by a letter of credit
- did not exceed the limit of $800 million

This initial limit was intended as a first step toward ensuring the continuity of the execution for these contracts because it was known that the overall liability would substantially exceed this amount. The Ministry of Finance increased the amount provided to the DFI Transition sub-account to meet contract obligations at his discretion.

A total of $217.7 million of DFI cash that was in the possession of CPA officials when governance transferred to the ITG has been retained for payment of DFI obligations. An additional $84 million of Iraqi funds passed through the DFI sub-account to U.S. military units to fund a matching grant by the ITG (Commander's Humanitarian Relief and Reconstruction Program). This transfer was executed for ease of currency disbursement and is not part of the execution of DFI sub-account contracts.

In December 2004, outstanding DFI sub-account liabilities were estimated at $3.5 billion. Because of the $3.017 billion provided by the ITG, this created an unfunded liability of $486.8 million. The DoS April 2005 *Section 2207 Report* revised this liability to $42 million, as of March 2005.

Table D-3 provides the DFI fund status and balance, as of September 30, 2005.

DFI Transition Sub-account Fund Status, as of September 30, 2005 (in millions)		
Sources of Funds	Bank	Cash
Beginning Balance	$800.00	$217.70
Additional ITG Funds[a]	2,027.41	0
Total	**$2,827.41**	**$217.70**
Uses of Funds	Bank	Cash
Allocated and Paid	$1,960.01	$157.24
Allocated and Unpaid	16.47	0
Unallocated	0	0
Total	**$850.93**	**$60.46**

Note: Data not formally reviewed or audited.
[a]Interest earned on account balances is credited to the ITG fund.

Table D-3

Other Iraqi Potential Repatriated Funds

The ITG retains primary responsibility for seeking worldwide recovery, under UN resolutions, of Iraqi assets frozen in response to past actions of the former regime. The U.S. government continues to actively assist the ITG in its search and recovery effort, but no longer has access to information on recovered asset balances.

The Oil-for-Food Program

The UN OFF program traded Iraqi oil for goods and services (primarily food) to alleviate suffering caused by the UN embargo on Iraqi oil. The program's oil sales operation began in December 1996, and its last oil sales occurred in March 2003–just before Operation Iraqi Freedom began. Food distribution was interrupted during hostilities. On May 22, 2003, the UN lifted its sanctions and gave the OFF program six months to conclude operations. On November 21, 2003, the UN OFF program officially ended.

Detailed financial information about OFF revenues and expenditures from December 1996 until December 2002 is included in the SIGIR January 2005 Report. In March 2005, the UN released unaudited financial statements for calendar year 2004, but not for calendar year 2003. This omission precludes any substantive further analysis because activities in 2003 included vital revenue and expenditure operations. The SIGIR is waiting for the UN to release operating information for 2003.

The OFF program remits surplus uncommitted OFF funds to the DFI when previously obligated amounts become available as unexecuted letters of credit expire. As of June 30, 2004, $8.6 billion have been transferred to the DFI from the OFF program ($8.1 billion while under U.S. control). The ITG is now responsible for the oversight of OFF contracts. The ITG will decide which contracts will be allowed to expire unexecuted or partially executed and which will be honored with the delivery of goods and services already paid for by OFF past revenues.